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SUBJECT: MADRID ECONOMIC WEEKLY, FEB. 23-27

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Budget Deficit Balloons, Spurring EC Warning

1.(U) According to figures released February 24 by the Secretary of State for Economy, Spain's public deficit in 2008 reached 41.8 billion euros or 3.8 percent of GDP, 0.4 percent above the latest official projection. This data comes on the heels of a European Commission report urging Spain (along with five other EU countries) to bring its budget deficit back in line with the EU's fiscal rules. The GOS predicts unemployment will rise to 15.9 percent in 2009, that GDP will shrink by 1.6 percent and that the budget deficit will widen to 5.8 percent. Comment: Many private forecasters expect unemployment and the budget deficit to be higher this year than the GOS is predicting. (All media, 2/25)

Inflation Rate Drops Again

2.(U) February consumer prices were only 0.7 percent above their February 2007 level, according to the National Statistics Institute (INE) advanced EU-harmonized CPI. This is the seventh consecutive monthly decline in the annual rate, and is the lowest annual rate in 40 years. Embassy Comment: It will not be clear until the full CPI is released in two weeks whether prices actually fell during February, as they had in the three previous months. (INE press release, 2/27)

Falling Consumption Contributes to Trade Deficit Decline

3.(U) Spain's trade deficit decreased by 4.9 percent in 2008, a decline largely attributed to falling domestic consumption and imports. Silvia Iranzo, State Secretary for Commerce at the Ministry of Industry, Tourism, and Commerce, indicated that the trade deficit would continue to fall with the depreciation of the euro and the decline in oil prices.

Tourist Arrivals Down 10 Percent in January from Year Before

4.(U) According to the Ministry of Industry, Tourism, and Commerce, international tourist arrivals fell 10 percent in January from the year before, marking further deterioration in a sector important to the Spanish economy. More international tourists visit Spain than any other country except France, and the tourism sector represents about 10 percent of GDP. (AFP, 2/23).

Auto Industry, Suppliers Request 4 Billion Euros in Aid

5.(U) Car makers and suppliers in Spain have applied for than 4 billion euros in GOS loan and support assistance. This amount is five times higher than the 800 million euros offered by the Ministry of Industry to support the ailing auto industry, a sector which contributes 2-5 percent to GDP. Minister of Industry Miguel Sebastian indicated February 24 that the Ministry had received a total of 413 project assistance requests. In 2007, Spain was the world's eighth largest producer of autos. (El Pais, 2/25)

Acciona Sells Shares in "National Champion" Endesa to Italian Enel

6.(U) Infrastructure and energy conglomerate Acciona announced February 20 that it would sell its 25 percent stake in electricity utility Endesa to the Italian electricity firm Enel, which already owns a 67 percent stake, for 11.1 billion euros. This transaction, which is expected to be completed in about six months, will mark the end of Spanish control of Endesa, which the GOS had owned until 1998. In 2006 and 2007, Endesa had been the subject of takeover bids from first the Spanish firm Gas Natural, then the German firm E.ON, and

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finally from the Enel-Acciona venture. The GOS originally had sought to promote the Gas Natural bid and then to block the E.ON bid before allowing the Enel-Acciona bid. It was censured by the European Commission for its actions to discourage the E.ON bid and its requirement that Endesa be maintained as an independent company based in Spain. Acciona will receive cash and some of Endesa's wind and hydroelectricity generation assets. According to Acciona, the transaction will make it the world's second largest renewable energy provider, up from third. (All media 2/24)

Repsol Ends Dispute with Government of Ecuador

7.(U) Oil and gas giant Repsol indicated that it had reached this past week an agreement with the GOE under which it will pay the taxes it had disputed with the GOE and will drop its complaint against the GOE with the World Bank's International Center for the Settlement of Investment Disputes. Additionally, Repsol has agreed to shift away from its current cost-sharing contract to a service provider contract instead, giving ownership of petroleum directly to the GOE. The agreement comes soon after a visit by Spanish Foreign Minister Moratinos, who helped resolve this longstanding dispute amidst threats by President Correa that Repsol assets in Ecuador would be frozen. Repsol is one of Ecuador's largest foreign investors. (EFE, Reuters 2/26)

E-Commerce Transactions Value Rose 40 Percent in 2008

8.(U) According to Spain's telecoms regulator the CMT, the value of e-commerce transactions increased by 40 percent in 2008 from the year before, surpassing 4 billion euros. This increase is perhaps reflective of GOS action to promote a strong information society in Spain through its "Plan Avanza." (El Pais, 2/24)

CHACON